

What's Up With Propane and Other Fuel Prices? Questions and Answers for 2005

How did Hurricane Katrina affect propane prices?

Hurricane Katrina is a national tragedy. Members of the propane industry are doing what they can to help individuals in the Gulf Coast region. For example, industry members are encouraging customers affected by Hurricane Katrina to review a recent news release from the National Propane Gas Association that outlines important safety precautions specifically for propane customers. Download the release at http://www.npga.org/files/public/PR_Disaster_Safety_Tips_8-30-05.pdf.

Consumers throughout the country are feeling the hurricane's residual effects, most noticeably in rising gasoline costs. And while most people have not yet noticed, the storm also had a major impact on natural gas, heating oil, and propane prices. Katrina severely damaged some of the Gulf Coast's major ports for energy imports, and the Gulf Coast is also the home of many oil and gas fields, oil refineries and gas processing plants that supply gasoline, heating oil, propane, natural gas, and other petroleum products to the country. In the near term, storm damage is expected to significantly reduce the amount of propane and other petroleum products that can be produced.

When the supply of propane is limited, prices will increase (see "The Nature of Supply and Demand", below). It is anticipated that prices will remain higher than usual until storm-damaged facilities can be repaired. In the meantime, consumers should follow the Energy Saving Tips from the Propane Education & Research Council. Tips focus on tactics consumers can implement now, as well as what they can do throughout the winter season to lower their energy bills.

In general, why are some consumers paying more for propane this year?

In today's economy, many factors affect the price of all goods, including propane. Virtually every domestic fuel source has experienced price hikes recently compared with past years. There are four main factors contributing to higher propane prices:

Higher Crude Oil and Natural Gas Prices. Because propane is produced from both crude oil and natural gas, its price generally follows the prices of those energy sources. Even before Hurricane Katrina, crude oil and natural gas prices had increased substantially above last year's levels. Crude oil prices are approximately 50 percent higher today than last year. Natural gas prices are also significantly higher this year than last, in part due to higher oil prices, as well as growth in demand to fuel electric power plants during the much hotter than normal summer. Crude oil prices are set on the world market, and it is difficult to forecast when or if oil prices will decline. However, it seems unlikely that crude oil prices will fall enough to significantly reduce energy prices in the next year or two.

The Nature of Supply and Demand. While propane is produced year-round, residential demand for propane is highly seasonal. This seasonality causes inventories to increase when demand is low (summer) and decrease when demand is greater (winter). Higher demand almost always leads to higher prices.

Seasonal Weather Conditions. Colder temperatures during the winter months can increase the demand for propane, particularly for home heating, which reduces supplies and leads to higher prices. Colder weather also affects the price of natural gas and distillate fuel oil.

International Influences. The global propane market is constantly changing. New customers all over the world are turning to propane as a home energy source, particularly in growing Asian markets like China. As a result, when world supplies are constant and there is increased competition for propane, these economic forces often lead to prices being raised.

Why are propane prices different in various areas of the country?

Propane prices vary in different parts of the country for two key reasons that are related to supply and demand: weather influences and location.

In the short-term, the demand for propane among residential and commercial customers is affected significantly by weather. Colder-than-normal weather can put extra pressure on propane prices during the high demand winter season. Cold weather early in the heating season can cause higher prices sooner rather than later, since early inventory withdrawals affect supply availability for the rest of the winter.

Propane prices are also influenced by proximity of the customer to the supply. Due to transportation costs, customers farthest from the major supply sources (the Gulf Coast and the Midwest) will generally pay higher prices for propane.

Source: "Propane Prices, What Consumers Should Know", Energy Information Administration, September 2004.

Will there be shortages of propane this winter?

According to the U.S. Department of Energy, 9.4 million homes in the United States depend on propane, and 54 percent of these households rely on propane as their primary heating fuel.

As of August 2005, the national propane supply is at 65.5 million barrels**, which is the average for this time of year. This winter, the national propane supply is expected to be in the normal supply range and should be adequate for all the nation's demands. Supply could be tight if damage caused by Hurricane Katrina to oil and gas production and processing facilities takes longer than expected to repair, or if there is colder than normal weather. Tight supplies would further increase propane prices, but are not expected to result in shortages of propane.

** Source: "Propane Prices, What Consumers Should Know", Energy Information Administration, September 2004.*

*** Source: "This Week in Petroleum," Energy Information Administration, August 24, 2005.*

How is the propane industry helping consumers meet the challenges of increasing fuel costs?

Many propane retailers offer balanced billing payment plans that allow customers to spread their annual costs over many months, lowering the cost of seasonally higher bills. The industry also moves quickly to meet the demand for propane. Regional storage and transport capacity have improved, allowing propane supplies to easily move from areas of surplus capacity to areas of greater need. The industry works hard to meet the demand of a potentially cold winter, despite hurricanes and other factors that disrupt oil and natural gas supplies.

Do retailers make more profit during sudden price increases?

No. When wholesale propane prices rise, retailers don't see larger profits. The effect is similar to what happens to orange juice prices after an early season frost. The grocery stores don't make any extra money because they're paying more for the product, too.

Are there steps that consumers can take to guard against winter price increases this year or to help lower their energy bills?

While consumers can't control the factors contributing to higher fuel prices, they can take some simple steps to lower energy bills year-round. Here are PERC's top ten energy saving tips:

Energy Saving Tips Consumers Should Pursue Now

1. Regularly inspect and tune-up residential heating systems. A heating system that runs well is more efficient and will save consumers money.

2. Invest in a furnace thermostat timer that lowers the home temperature when occupants are away. Turning back the thermostat 10-15 percent for eight hours per day can cut annual heating bills by as much as 10 percent.
3. Protect against drafts by caulking and weather-stripping around windows, doors and other openings such as ducts, fans and vents.
4. Install flow-restricting showerheads. This can reduce hot water usage by up to 50 percent without affecting shower pressure.
5. Consider switching to a propane water heater. Over time, propane water heaters can cost up to one-third less to operate and they recover hot water twice as quickly as electric water heaters.
6. Discuss payment plan options with a propane retailer. Many retailers have budget payment plans that will help consumers spread projected annual cost of propane over many months, lowering the costs of seasonally higher bills.

Energy Saving Tips Consumers Should Follow Throughout the Cold Weather Season

7. Change furnace filters monthly. Clean filters will increase efficiency. If on a monthly payment plan, use the receipt of the monthly propane bill as a reminder
8. Run washing machines, clothes dryers, and dishwashers with a full load.
9. Turn down water heaters from the standard 120 degrees to 115 degrees. This could save more than 10 percent on the water heating bill.
10. Increase a water heater's efficiency by draining it every six months to remove mineral deposits and sediment.

Are state or federal government energy assistance programs available?

Yes. The U.S. Department of Energy sponsors a weatherization assistance program to help eligible households permanently reduce their energy bills by making their homes more energy efficient.

Application information is available at www.eere.energy.gov/weatherization/.

Also, the Low-Income Home Energy Assistance Program (LIHEAP) helps qualified low-income households meet their energy needs. Contact the National Energy Assistance Referral (NEAR) project toll-free at (866) 674-6327 or send an e-mail to energyassistance@ncat.org or visit www.acf.dhhs.gov/programs/liheap/

Are there other websites that provide help on dealing with prices?

Yes. Here is a list of websites that may be able to provide more information regarding energy prices and supply:

www.eia.doe.gov. DOE's Energy Information Administration. Click on "Alternative Fuels" at the bottom for propane information.

homeenergysaver.lbl.gov. The Home Energy Saver identifies ways to save energy in homes including a tool to calculate the energy you use and what you can save.

www.eere.energy.gov/consumerinfo/. DOE's Energy Efficiency and Renewable Energy site. Includes numerous useful links to other information sources.

www.energystar.gov. Energy Star's site includes the Home Energy Yardstick to compare your energy use to other U.S. households.

www.usepropane.com. Propane Education & Research Council's consumer information site.

www.npga.org. National Propane Gas Association's site includes timely updates about the industry's activities and contact information for your state propane association.

For additional information on propane prices, see the Energy Information Administration's "Propane Prices: What Consumers Should Know" brochure at:

http://tonto.eia.doe.gov/FTP/ROOT/other/Propane_Prices04.pdf